United States
Department of Agriculture
Foreign Agricultural Service

Foreign Agriculture

July 1982

Credit and Aid Programs Set a Course for Stronger Sales

Trade Update

ASEAN-U.S. Trade Flourishes

As a group, the ASEAN nations (Indonesia, Malaysia, Philippines, Singapore and Thailand) were the tenth largest market for U.S. agricultural exports in 1981 with purchases of $1.2 billion. Although U.S. sales to ASEAN have matched the recent growth rate in total U.S. agricultural exports, the United States remains a net agricultural importer from the area. Trade values for the past 5 years are as follows:

Year	U.S. agricultural exports to ASEAN	U.S. agricultural imports From ASEAN
1977	$661.4 mil	$1,700.0 mil
1978	$795.6 mil	$1,580.8 mil
1979	$898.0 mil	$1,930.9 mil
1980	$1,117.8 mil	$1,920.1 mil
1981	$1,197.6 mil	$1,849.6 mil

The major U.S. agricultural imports from ASEAN in 1981 were rubber ($220 million), coconut oil ($232 million), coffee ($220 million), sugar ($214 million), canned pineapple and other fruit, nut and vegetable products ($204 million), cocoa and chocolate ($78 million), palm oil ($60 million) and spices ($38 million). The chief U.S. agricultural exports were wheat, cotton, soybeans, tobacco, rice, corn and other grains.

The ASEAN countries have also been upping their purchases of high-quality U.S. beef, veal and fruits. Poultry exports have risen especially fast due to increased consumption in the four eastern countries, coupled with ample U.S. supplies of a high-quality, competitively priced product. ASEAN's poultry exports (primarily frozen parts) increased nearly two-fifths in value between 1980 and 1981—rising from $26.5 million to $36.8 million.

U.S. Whey Powder In Demand

World traders in dairy products are showing considerable interest in U.S. dried whey powder because of its competitive price on world markets. This is in marked contrast to other commercial exports of U.S. dairy products, such as butter and cheddar cheese. Exports of U.S. whey powder totaled 11,000 metric tons in 1980, but dropped back to about 10,000 in 1981. The largest U.S. markets in 1981 were Canada, the Philippines, Mexico and Taiwan. This year should see a pickup in U.S. sales.

World Poultry Congress Canceled; Next One Set for Finland in 1984

Poland has withdrawn its invitation to hold the XVII World Poultry Congress in Poznan, August 22-27, 1982, and relocation at an alternate site is unlikely. The Executive Committee of the World's Poultry Science Association met last spring and decided to hold the next World Poultry Congress in Finland in August 1984.

U.S. Tanners Protest Argentine Tax on Hides

The U.S. Tanners' Council of America has filed an action against Argentina, under Section 301 of the 1974 Trade Act, for failing to reduce its hide export tax to zero. The reduction was called for in a 2-year bilateral hide agreement which went into effect October 1, 1979. Argentina is trying to retain its hide export tax at 10 percent without giving up any of the U.S. concessions received for entering into the agreement. Immediate resolution of the dispute is not likely, but the United States is expected to pursue its demand that Argentina comply or it will withdraw all concessions given. It may also press for retaliatory measures.

The Magazine for Business Firms Selling U.S. Farm Products Overseas

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Features

Departments

Credit Programs Crucial To Expanded U.S. Exports

By Alan T. Tracy

Without credit, few houses would be sold, few old cars would be replaced, and few farmers could afford the seed and fertilizer they need for next year's crops.

But dependence on credit for many countries even extends to their ability to feed their own people. This month's issue focuses on U.S. export credit programs—the direction they are taking and their importance in agricultural exporting.

In the modern world, most major agricultural exporting nations have some type of credit programs for their customers. The United States is no exception.

Resources and expertise are used to help other nations that cannot take record crops and surpluses for granted.

Not since the days of the early settlers in Jamestown has the United States had to import food for survival. For the United States, the need for credit to import food is unheard of. Other countries that have to import basic foodstuffs are not so fortunate. For them, a rise in sophistication and a sign of increased affluence is a loaf of bread, a chicken stew, or soy-fortified milk.

Purchasing these commodities from abroad involves serious decisions on the part of governments to divert some of their scarce foreign exchange.

Although the United States is not dependent on credit to feed itself, it is dependent on credit as a market development tool. As several countries have increased their agricultural production, they, too, have turned to exporting. In short, the competition for export customers for farm products is intensifying.

Most major exporters provide credit programs on attractive repayment and interest terms to increase their competitive position. Importing countries are very much aware of the impact of credit competition. Suppliers are chosen not just on price, quality, or transportation, but also on credit repayment periods and interest charges.

The rationale for U.S. credit programs—both concessional and commercial—has remained pretty much the same over the past 28 years. These programs were created to develop U.S. export markets, to combat hunger, and to foster economic development abroad.

As overseas markets have changed their needs for such things as short-term commercial credit or additional commodities, U.S. credit programs have been refined and tailored to reflect new international situations.

The potential for future growth in U.S. agricultural export sales depends to a large extent on the export credit tools available. Authorization exists for a broad range of U.S. programs, but only Public Law 480 and the GSM-102 Export Guarantee Program of the Commodity Credit Corporation (CCC) are covered under current government spending authority.

When P.L. 480 was introduced in the mid-1950s, major recipients were in Western Europe and Japan, recovering from World War II. By the 1960s, the focus of P.L. 480 shifted to developing countries, many of which were just gaining their independence.

The work of P.L. 480 in the 1970s continued the development work begun in the 1960s. Today, in the 1980s, the goals of earlier years have become more crucial than ever.

Many developing countries still need the financial boost they get from being able to import on a long-term, concessional basis and to develop their own agricultural infrastructures.

Along with the development of concessional financing, there arose the need for credit programs to help former concessional recipients make the transition to commercial purchases. That need was answered by CCC's credit programs, for 25 years with direct credits, and today as credit guarantees.

The GSM-102 Export Credit Guarantee program offers importing countries credit from U.S. banks, at commercial interest rates. This credit, which is guaranteed by the CCC, is used to buy U.S. agricultural commodities.

Thus far, U.S. credit programs have been very successful. The transformation of former concessional markets to full commercial trading partners proves well that aid does lead to trade. The list of countries that have made the switch, including Japan, Korea and Taiwan, continues to grow.
The budget for direct credit and concessional financing has dwindled substantially in recent years. Rather, credit guarantees have emerged as a very important market development instrument.

Credit guarantees have several important advantages. First of all, they introduce countries to the use of commercial channels in importing agricultural products. And most importantly, the system of credit guarantees introduced in 1979 has substantially reduced direct government intervention in export financing. The Reagan Administration believes this is a more productive and realistic approach to credit programs.

In the early years of U.S. credit programs, the United States was the only country with the resources—in both food and money—able to take on programs such as P.L. 480 and CCC. But today, other major agricultural suppliers, such as the European Community and Canada, have entered the picture.

As a result, traditional U.S. export markets are being eroded by other nations' use of below market financing and extended repayment periods.

Innovative U.S. credit programs will be key factors meeting the needs of tomorrow's markets and assuring continued growth of U.S. exports. ■

The author is Deputy Under Secretary for International Affairs and Commodity Programs.

U.S. Food Aid Develops Cash Markets

By Mary Chambliss

Seven of the United States' top 10 customers for farm products last year are past recipients of U.S. food aid. That statistic points up a fact often overlooked: P.L. 480 is one of the United States' most successful market development tools.

Approximately 292 million metric tons of U.S. agricultural products have been shipped to all parts of the world during the program's 28-year history. Valued at $32 billion, these shipments generated another $10 billion for U.S. firms involved in their handling and transportation.

Doors Opened to Many Markets

More than 100 countries in the world have received U.S. food aid at one time or another. In its earliest years, P.L. 480 aid was targeted at the war-devastated countries of Western Europe and Japan.

Far left: The lights of Cairo, Egypt.

Left: Traditional Japanese shopping area in Kyoto.

Below: An outdoor market in Pusan, Korea.

Many Big P.L. 480 Recipients Become Cash Customers

Leading recipients[1]	Aid rec'd FY 1955-80	U.S. ag. exports FY 1981
	$ Mil.	$ Mil.
India	6,040	324
Egypt	2,455	950
Pakistan	2,135	147
Korea	1,972	2,136
Indonesia	1,707	382
South Vietnam	1,464	–
Yugoslavia	1,020	188
Brazil	898	843
Bangladesh	841	75
Israel	717	365
Turkey	674	87

The introduction of U.S. products to these countries in the 1950s laid the foundation for today's large agricultural sales. Last fiscal year, U.S. agricultural exports to Western Europe and Japan topped $18½ billion. That was more than five times the value of U.S. food aid to these countries during the 28-year history of the P.L. 480 program.

Developing countries have been the focus of the P.L. 480 program since the 1960s. A few of the early recipients are now big cash customers for U.S. products.

Mexico, which last year ranked as the United States' third largest agricultural export market, has received $78 million worth of P.L. 480 aid since the program's beginning. However, all of the $2.7 billion worth of U.S. farm products sold to Mexico last fiscal year were paid for in cash.

Egypt has received close to $2½ billion worth of P.L. 480 assistance, making it the second largest recipient in the program's history behind India. Now, however, Egypt is close to becoming a billion-dollar buyer of U.S. farm products, and is buying with cash more often than on concessional terms.

Other countries which are currently making the transition from an aid recipient to a trade partner are Indonesia, the Dominican Republic, Morocco, Tunisia and Peru.

The GSM-102 credit guarantee program often helps in this transition by bridging the gap between P.L. 480 concessional sales and commercial sales for cash.

Vast U.S. Grain Trade Founded On Food Aid

P.L. 480 has proven especially valuable in opening up markets for U.S. grain producers, who exported more than $20 billion worth under the program during the 1955-81 fiscal years.

Wheat Tops List of Aid Shipments Since 1955

Commodity	1,000 MT	$ Mil.
Wheat & prod.	206.0	15.686
Rice	17.1	3.564
Feed grains & prod.	48.2	3.470
Vegetable oil	7.7	2.754
Cotton	4.1	2.666
Nonfat dry milk	4.2	1.487
Other	4.3	1.900
Total	**291.6**	**31.528**

During the first decade of the program's operation, almost half of the United States' exports of rice and 60 percent of the wheat were shipped under the program. From the mid-1960s to the mid-1970s, roughly two-fifths of the total exports of both rice and wheat moved under the program.

Wheat and wheat products have accounted for over 70 percent of the program tonnage and roughly half its value since 1954.

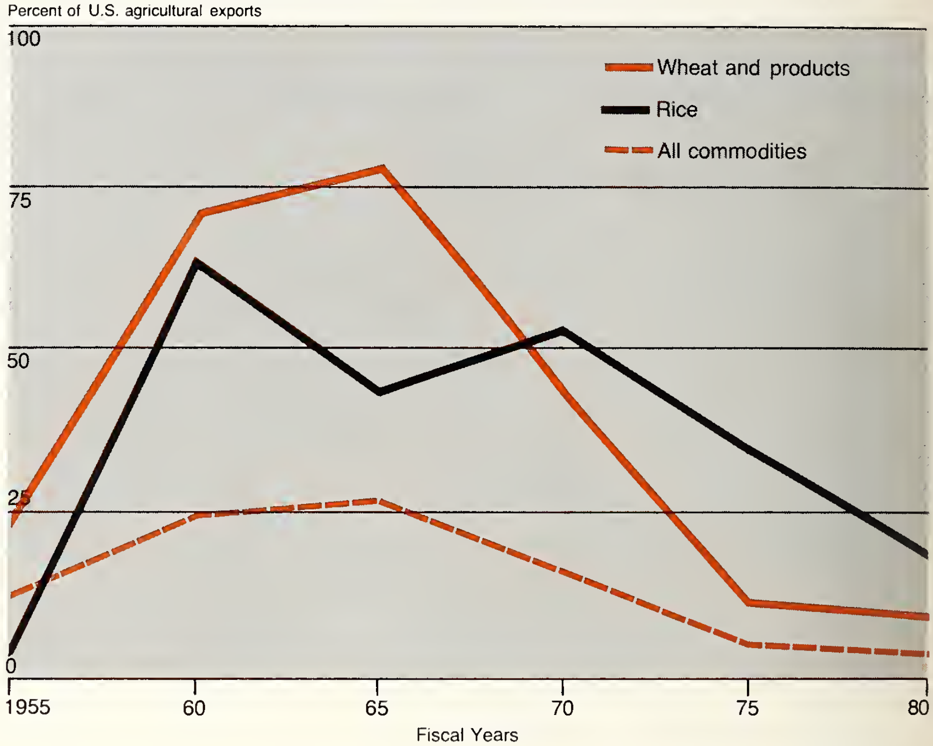
The P.L. 480 program has given a big impetus to U.S. flour exports, which must compete against the heavily subsidized product marketed by the European Community. Nearly two-fifths of the U.S. flour exports in 1980 were under P.L. 480.

Other major P.L. 480 shipments are feed grains, vegetable oil, cotton and nonfat dry milk.

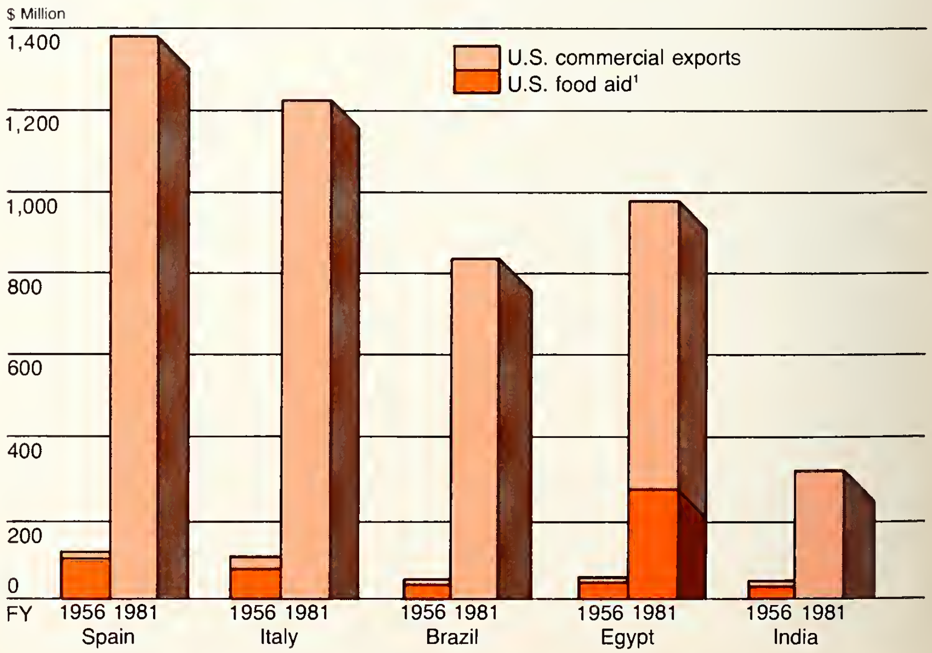
Shipments under P.L. 480 make up a much smaller share of U.S. agricultural exports than they once did. As total U.S. exports have grown, especially during the past 10 years, the percentage of total exports under P.L. 480 has shrunk to around 3 percent. At points during the 1950s, the share was as large as 41 percent. ■

The author is the Assistant to the Assistant Administrator for Export Credits, FAS.

P.L. 480 Shipments Significant in U.S. Grain Trade



Many Big Customers Started With U.S. Food Aid



[1]Includes P.L. 480 (Title I) and mutual security/AID programs.

Credit Competition Intensifies in World Markets

By Jack Rower

The credit terms available under government export programs can often spell the difference between selling or not selling in many markets.

Using Credit To Build Markets

The GSM-102 Credit Guarantee Program, run by USDA's Commodity Credit Corporation (CCC), helps exporters of U.S. agricultural products compete more vigorously in a number of foreign markets. But, at the same time, exporters in other countries can also vie more intensely for these same markets because of credits given by their governments. So U.S. sellers can't afford to compete just in terms of price and quality, they need to know a lot about credit.

The goals of the GSM-102 credit guarantee program are to expand U.S. farm exports and market shares in existing markets and promote sales to new untapped markets. To help finance sales of U.S. farm products, the CCC provided export credit guarantees of more than $1.8 billion in fiscal year 1981.

Many of the major growth markets for agricultural exports are in developing countries that have growing populations but slim financial resources. Most of the CCC's credit guarantees enable these countries to buy American farm products they could not otherwise afford.

Some of the countries that have been involved are Costa Rica, Brazil, Peru, Portugal and Korea. With the help of credit guarantees, these nations have been good customers for sizable volumes of U.S. grains, oilseeds and protein meals.

Many developing countries use regular short-term commercial financing for commodity imports, but find that a somewhat longer term credit guarantee program allows them to import larger quantities of U.S. farm products.

Normal short-term transactions for commercial agricultural exports are, in general, based on repayment periods of not more than 180 days. Cotton is a notable exception to this rule. Commercial cotton transactions usually have repayment periods of up to 1 year.

The GSM-102 program, which applies to sales of all agricultural commodities, provides U.S. banks and exporters with guaranteed coverage of 98 percent of the principal and of 8 percent interest. The repayment period may be as long as 3 years.

What Is the Competition Doing?

Among the other countries offering credit guarantee programs are Canada, France and Australia.

- Canada provides credit guarantees on a 2-year repayment basis, with interest at less than commercial rates;

- France makes financing available in some markets at substantially reduced interest rates with a 2-year repayment period; and

- Australia reportedly provides export credit for wheat on similar terms in several markets.

Each of these foreign programs requires importers to make a cash downpayment at the beginning of the financing period. This requirement may somewhat reduce the benefit of the terms, which are otherwise very attractive.

The credit programs of the United States and the other agricultural exporting nations offer more attractive repayment and interest terms than strictly commercial arrangements.

The availability of these programs from different exporters has created a new form of competition based on credit repayment periods and interest rates. In many instances, these credit factors now join considerations like price, quality and transportation costs in determining competitive advantages.

Agricultural exporting countries often use these government-sponsored export credit programs as a marketing tool for specific commodities. As might be expected, the programs largely promote the sale of each country's most important export commodity.

Credit availability is governed by supply conditions in both the world market and the domestic market of the exporting country. More credit is usually available for commodities that are subject to the greatest competition, such as wheat and feed grains.

Advantages for Buyers

The advantages provided by export credit programs involve the interest rate and the repayment period. An extended repayment period reduces cash outflows by the importer and scarce foreign exchange is conserved during the repayment period. Lower interest rates translate into smaller overall costs to the buyer.

Together, the expanded repayment period and the lower interest rate provide a strong incentive to the importer to locate and use the most advantageous credit program.

Effect on Sales

It is difficult to determine the details of foreign credit programs, and the impact they have on U.S. farm exports. Most foreign exporters and importers do not reveal the terms of individual credit transactions to the extent the U.S. government discloses GSM-102 arrangements.

But credit competition definitely does exist. And this may be of increasing concern to U.S. exporters as importers become more sophisticated about the use of credit. ■

The author is an agricultural marketing specialist, Program Operations Division, FAS.

The In's and Out's Of Credit Guarantees

By L.T. McElvain

"GSM-102" has become a valuable tool for a growing number of U.S. exporters, and has helped them build their sales of agricultural commodities overseas.

GSM-102 — the Export Credit Guarantee Program — as handled by USDA's Commodity Credit Corporation (CCC). It helps expand agricultural exports by making credit available to foreign importers.

Credit for up to 3 years helps U.S. exporters land sales they wouldn't make otherwise and compete more effectively with suppliers from other countries. (See page 9 for an article on the increasing role of credit competition in the international agricultural trade.)

The amounts of credit available are sizable and growing. In fiscal year 1981, just under $2.3 billion in export sales were registered under this credit program and a little more than $1.8 billion were exported and financed by U.S. banks.

This fiscal year, the CCC can offer even more guarantees–up to $2.5 billion.

Selling Under GSM-102

Let's say you're an exporter interested in using GSM-102. What and where can you sell using the program's credit guarantees?

CCC does not maintain a list of countries that are eligible or ineligible for the program. Instead, any requests you make will be reviewed on a case-by-case basis. However, a few countries are barred from the program—those that do not have most-favored-nation status under the Trade Act of 1974 and certain other countries excluded by executive order or U.S. Department of Commerce regulations.

As far as the commodities are concerned, the CCC will consider financing your sale if the agricultural commodity you want to export will further its long-range objectives for market development. This covers virtually all the major commodities.

How the Financing Works

In most cases, the CCC guarantees 98 percent of the port value of the commodity you export plus 8 percent per annum accrued interest for a maximum of 3 years from the date of export.

Your foreign customer must arrange for an irrevocable letter of credit in your favor for the port value of the commodity. But risks still exist, such as the availability of foreign exchange or bankruptcy of the bank opening the letter of credit. By transferring this risk to the CCC, a U.S. financial institution can offer your customer additional financing that otherwise would not be available.

An added benefit is that the program allows U.S. financial institutions to offer longer credit terms than they would normally provide for your exports.

Interest Rates

The CCC does not control the interest rates charged under the program. Instead, these rates are negotiated by the financial institution that handles the financing and the foreign country or importer buying your commodity.

Usually the interest rate is set for 6 months at a fraction above the London Inter Bank Offered Rate (LIBOR). This rate is now about 15 percent.

GSM

As the program becomes better known, new forms of financing are cropping up and the CCC hopes they will lead to lower interest rates for your customers.

For example, larger commercial banks may arrange for a smaller bank, pension fund, insurance company, or other source to provide part of the financing at interest rates lower than those normally charged by banks. The result is a financing package that makes your U.S. agricultural commodity even more attractive to foreign importers.

How Are Sales Made?

Any sale is, of course, based on a your desire to sell and a buyer's desire to buy. In the guarantee program, there are some additional players–the Foreign Agricultural Service (FAS), which works to promote U.S. exports, and international banks, which make loans to buyers in foreign countries.

There are numerous ways that a potential sale can wind up being financed under the program.

- You may travel abroad to make contacts, perhaps through an FAS overseas trade office.

- An FAS attache overseas may see a market opportunity and talk to a foreign customer to promote the use of the program.

- A branch of a U.S. bank in a foreign country may approach foreign importers or their banks to make them aware of the program.

- Or, quite commonly, a foreign buyer who wants to buy agricultural commodities on credit will approach FAS either in Washington or overseas.

How a Sale Is Processed

After either you or a foreign importer makes a request to FAS to use the GSM-102 program, FAS will evaluate the request. The evaluation is based on the program's market development objectives and the risk of nonpayment.

Once FAS approves a request, it issues a press release announcing, among other things, the commodity, country, amount of coverage and the guarantee rates to be charged. At that point you are free to negotiate sales with the foreign buyer and apply for the GSM-102 coverage by registering your export sale with the CCC and paying the guarantee fee.

If CCC approves the sale for GSM-102 coverage, a payment guarantee will be issued to you. This payment guarantee now protects you against both commercial and noncommercial risk if your customer's foreign bank fails to pay under the letter of credit when payment becomes due.

You will ordinarily want to be paid for the commodity immediately after shipment. So a U.S. financial institution arranges for the financing and pays you upon presentation of documents required under the letter of credit established by your customer's bank. The U.S. financial institution handling the sale will then collect from the foreign bank when the payment comes due.

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After your commodities have been exported, you must provide a report of export to the CCC within 30 days after shipment. This report must include the final payment schedule showing the dates the interest and principal are due from your customer's foreign bank. This schedule becomes a part of the payment guarantee and establishes the CCC's liability in case of nonpayment by the foreign bank.

This month's 'Fact File' on page 13 gives more details on guarantee fees, payment guarantees, export reporting and the steps you should follow in making a sale under GSM-102.

What if the Foreign Importer's Bank Fails To Pay?

The U.S. financial institution must notify the CCC if it is unable to collect from the foreign bank under the letter of credit or the loan agreement relating to the letter of credit. The CCC must receive notice within 10 days after the due date, unless it has agreed to extend that date.

After the notice has been filed, the institution can then file a claim under the payment guarantee. It does this by submitting certain documents and assigning to the CCC the rights to the payment due, including the portion not covered by the guarantee.

Once the CCC determines that the claim is in order, it will immediately pay the holder of the payment guarantee. If payment is not made within one day after the claim is received in good order, the CCC will also pay interest based on the prevailing 52-week U.S. Treasury bill rates.

Any payment the CCC receives later from the foreign bank will be prorated in the same proportion that each party (the CCC and the U.S. financial institution) shared in the risk.

Needed Help for the Buyer

Using GSM-102, the CCC guarantees most of the money owed in case a foreign importer's bank fails to make agreed upon payments. Ultimately, it is this guarantee that permits the importer to find financing and pay for U.S. commodities on a deferred basis. The financing is provided by a bank in the United States.

This type of arrangement has a number of benefits for a foreign buyer. The credit gives individual importers the time to process and/or resell U.S. commodities. And, in effect, it provides cash for their enterprises to operate and earn the money to pay for the commodity and finance charges later on.

Where To Get More Information

If you are interested in the CCC's GSM-102 program, you can get complete information by writing or telephoning the Assistant General Sales Manager, Export Credits, Foreign Agricultural Service, USDA, Washington, D.C., 20250, (202) 447-3224. ■

The author is Deputy Director with Program Operations Division, FAS.

Fact File

How To Use CCC Credit Guarantees

If you are an exporter interested in using credit guarantees, you'll need to know something about the mechanics of the GSM-102 Program of the Commodity Credit Corporation (CCC). The following is some background information you will find useful in meeting the program's requirements.

If you find a foreign buyer who wants to purchase on credit, you may initiate a request for a CCC guarantee yourself. Requests should specify the commodity desired, quantity, estimated value, approximate shipping period, the credit period desired and, if available, the name of the foreign bank that will issue the letter of credit. Requests may also come from U.S. banks or foreign buyers.

The regulations do not prevent you from negotiating sales before the public announcement, but no coverage will be in force for any commodities you ship before a sales registration and guarantee fee payment is submitted to the CCC.

In some cases you may wish to extend credit terms to foreign buyers yourself, but in most instances loans are made by banks in the United States rather than by U.S. exporters. You receive payment under an irrevocable foreign bank letter of credit through the U.S. bank. This occurs after the commodities you are selling have been exported and you have presented the appropriate documents to the bank.

There is no special procedure you need to follow to qualify for the GSM-102 program. But you must have a business office in the United States, have someone on whom service of judicial process may be performed in the United States, and not be suspended or debarred from participating in the CCC programs.

When you make a sale using GSM-102, the foreign bank's letter of credit and CCC's payment guarantee are issued to you. Usually, you are paid and relieved of risk immediately after export of the commodities you have sold. But you must submit a report to the CCC after export and you remain liable for false statements to the CCC or actions that do not conform with CCC's regulations or may compromise the program's objectives.

You must retain documents relating to your sale for 3 years after the payment guarantee expires. In many cases, the CCC will simply accept your statements as valid, rather than requiring you to submit the documents, but your records are subject to inspection by authorized USDA officials.

To take part in the GSM-102 program you should follow these steps:

1. Make a sale to a foreign buyer.

2. Register your sale with the CCC and pay a guarantee fee.

3. Assign CCC's payment guarantee to a financial institution in the United States.

4. Ship the commodities.

5. Present documents to the U.S. financial institution you selected and receive payment.

6. Send a report of export to the CCC.

Sales Registration

In many cases, you may become involved in a GSM-102 transaction after the foreign buyer has already arranged CCC guarantees and a U.S. bank to provide financing. Your

foreign buyer may purchase through tender or negotiation and will indicate to you that the sale should be registered with the CCC under the GSM-102 Program. You should have a copy of the GSM-102 program regulations which list all the information you must submit as well as other obligations and procedures. Also, you should have all the detailed information provided in the press release which announced the availability of the guarantee coverage.

When you register a sale with the CCC, you must submit the following:

1. The name of the destination country.

2. The importer's name and address.

3. The name of any intervening purchaser, if applicable, and a statement that the commodity will be shipped directly to the foreign buyer in the destination country.

4. Date of sale.

5. Your sale number.

6. Delivery period.

7. Kind and description of the commodity.

8. Quantity.

9. Contract loading tolerance.

10. Port value, including upward tolerance.

11. Guaranteed value.

12. Guarantee fee.

13. The name and address of the foreign bank issuing the letter of credit.

14. Estimated payment schedule(s) for each shipment you will make under the export credit sale showing the due dates for principal payments and the amounts due.

You should ask your customer for the name of the foreign bank issuing the letter of credit, the credit period, and the frequency of principal payment. The credit terms are essential in order to determine the guarantee fee, which is calculated by multiplying guaranteed value times the guarantee rate. The schedule of guarantee rates will be shown in the CCC's press release, but the CCC must know the credit period and whether principal is to be paid annually or semi-annually in order to know which rate to use.

The CCC will accept registration only of sales that are firm, including both a delivery date and a firm price or a mechanism to establish a price (basis pricing). You must send a written request (letter, telex or TWX) and must also send in a guarantee fee before the CCC will process the application. The fee may be sent in by courier, regular mail or through the Treasury Electronic System.

The CCC will accept a telephone registration, followed by a written registration, if you mail your check on the same day that you make the telephone registration. Sometimes exporters prefer to register by telephone in order to reserve coverage and receive a payment guarantee number. The foreign bank may wish to insert the payment guarantee number in the letter of credit.

Guarantee Fee

When paying the guarantee fee, you should be aware that it is non-refundable. The port value registered should include the value of any upward shipping tolerance. The fee is calculated on the basis of the guarantee value. For instance, if the CCC's announcement specifies that the maximum guaranteed value is 98 percent of the exported value, you could purchase a guarantee for up to 98 percent of your port value.

If you decide to declare a guarantee value lower than the maximum permissible and then ship more than is covered, the CCC might agree to accept your application and additional fee to increase the guaranteed value. However, this may be done only if you apply before shipment and other sales registrations have not exhausted the announced guarantees for the commodity and country. If the guarantee has been assigned, the assignee must agree to the increase. The CCC does not reserve coverage for which no guarantee fee payment has been received.

Amending Your Payment Guarantee

The CCC will consider amendments to payment guarantees upon receipt of a telex or other written request explaining the reason for the amendment. The request should be sent before export of the commodity. For instance, you may have a shipping delay and not be able to ship by the date shown in the payment guarantee, but still be able to ship before the deadline shown in the CCC's press release. If the payment guarantee has been assigned to a bank at the time you request an amendment, the CCC's amendment will be effective for the assigned guarantee. As indicated above, some amendments require assignee concurrence.

Assignment Of Payment Guarantee

The CCC will send you a payment guarantee as soon as the request has been processed and formally approved. You may assign the payment guarantee to a financial institution in the United States as soon as you receive it. You must have a notice of the assignment endorsed by the assignee sent to the CCC and the CCC will acknowledge receipt.

Report Of Export

Within 30 calendar days after shipment, you must submit a report to the CCC including a statement that the commodities have been exported as agreed and a correct payment schedule. The final payment schedule establishes the liability of the CCC to you or your assignee in case of default by the foreign bank.

You must submit a separate final payment schedule for each shipment, but one payment guarantee may cover multiple shipments. In the payment schedule, the dates and principal amounts, which establish the CCC's liability, should be correct. If interest rates are set on a floating basis, interest amounts will be estimated, but the dates must be accurate.

After you ship the commodities, present your documents to the bank, receive payment, and send your report of export to the CCC, risk of default is transferred to the CCC and the U.S. financial institution.

Export Credits Build Markets in Developing Countries

By Kenneth L. Murray

The fastest growing markets are not always where you would expect them to be. U.S. food exporters discovered in the 1970s that much of the big surge in their sales was not coming from the usual customers, but from new markets in developing countries.

Export credit programs played a key role in the growth of these markets in Asia, Africa and Latin America. U.S. farm shipments to these newer customers outstripped sales to traditional markets in the developed countries of Western Europe.

The potential for future growth in U.S. agricultural exports appears most promising in countries where there is a large gap between expectations and the food resources now at hand.

The gains in U.S. agricultural sales to developing countries are impressive. In fiscal year 1971, U.S. agricultural exports to these countries were worth only $2.6 billion, or one-third of the total for that year. But these sales jumped to $17 billion by fiscal year 1981 and accounted for 40 percent of all U.S. agricultural exports.

On the other hand, U.S. farm exports to developing countries under concessional programs dropped from one-third of agricultural exports in 1961 to 14 percent in 1971 and to around 3 percent last year. These figures clearly show that many developing countries have evolved into important commercial markets for U.S. farm products.

U.S. export credit programs have used several different methods to build markets ranging from long-term loans on concessional terms (under Title I of P.L. 480 [1]) to short-term commercial credit and credit guarantees.

During this fiscal year, there is financing available under Title I for purchases of about $700 million worth of U.S. agricultural commodities. At the same time, up to $2.5 billion is authorized for export credit guarantees for short-term commercial financing.

It is in the developing areas of Africa, Asia and Latin America that credit programs for U.S. agricultural exports are the most active. Generally, the lower income countries benefit from long-term concessional credit, while middle-income countries participate mostly in the USDA commercial export programs.

[1] References to P.L. 480 in this article apply only to the Title I portion of the program.

Credit and the Communist Countries

The communist countries are the biggest question mark in the overall outlook for U.S. agricultural exports. Will U.S. sales to them keep growing the way they have in the last decade? What role can credit play in tapping the potential of these markets in today's political and economic climate?

The market for U.S. food ballooned in many communist countries in the 1970s. In 1971, the USSR, its East European allies and China accounted for only about $300 million worth or 4 percent of U.S. agricultural exports. Ten years later, these figures were $6 billion and a 14-percent share.

Part of this gain stemmed from the use of U.S. commercial export credit—mainly to Poland. Virtually all of Poland's commercial imports of U.S. farm products in recent years have been under GSM export credit programs.

In fact, Poland was the largest recipient of GSM guarantees in fiscal year 1981, accounting for $670 million. Romania, the only other communist country to receive GSM-102 guarantees last year, had a credit line of $50 million.

With the current political crisis in Poland and shaky financial situations throughout East Europe, export credit guarantees have been curtailed. GSM credit programs have been the main export tool for U.S. agricultural shipments to East Europe. Only Poland and Yugoslavia received P.L. 480 food assistance, and only small amounts of that in recent years.

Most of the communist countries are excluded from P.L. 480 programs. These countries include the USSR, the German Democratic Republic (GDR), Czechoslovakia, Bulgaria and China, among others.

Some communist countries are, however, eligible for export credit guarantees because they have been accorded most-favored-nation status. These include Poland, Hungary, Romania and Yugoslavia.

China was made eligible for these guarantees under special legislation passed in 1978, prior to receiving most-favored-nation status.

Perhaps the greatest potential for future growth lies in food sales to China. In the past decade, Chinese purchases of U.S. agricultural products have grown from insignificant amounts to over $2 billion.

And what is even more impressive, this growth took place without the aid of export credit programs. The Chinese have expressed some interest in export credit guarantees, but so far they have been discouraged by high interest rates. When this situation changes, China could become an important participant in U.S. export credit programs.— *By Kenneth L. Murray*

There is a clear link between concessional and commercial credit programs. As countries develop economically, they normally move from concessional programs to commercial credit, and eventually to cash purchases. Some recent examples of successful graduates from concessional programs are South Korea, Portugal and Peru.

Potential in Developing Countries Remains Strong

Despite the great strides of the past decade, there is still strong potential for more U.S. farm exports to the developing world. Just a few examples show the broad range of this potential.

Egypt, currently the largest P.L. 480 recipient, was once a strictly concessional market for U.S. wheat and wheat flour. But over the years it has also become a good commercial market for U.S. wheat.

For fiscal year 1982, Egypt's wheat imports are projected at 6.5 million metric tons. Of this, the United States will supply nearly 2 million tons under Title I plus 1 million tons commercially. All signs point to a continued high levels of imports because of Egypt's rapidly growing population and the limits on its production potential.

Pakistan is not a program "graduate" yet, but it is a prime example of a country using both P.L. 480 and commercial credit guarantees to help meet its rising needs, particularly for vegetable oils.

This year, the Title I authorization will enable Pakistan to buy $50 million worth of soybean oil. And GSM-102 credit guarantees have been approved for an another $60 million in purchases of U.S. soybean oil.

Both programs will keep Pakistan a vital market for U.S. vegetable oils and ensure that U.S. exporters can capitalize on the country's great potential for continued growth.

Indonesia—traditionally a rice-consuming country—began receiving large amounts of U.S. wheat flour under Title I in 1968. Continued P.L. 480 sales, combined with a stronger market development effort, have helped make Indonesia a major commercial importer of wheat. In 1979/80, the Indonesians bought 845,000 tons of U.S. wheat worth $150 million—and only a tenth of these imports were on concessional terms.

It is in markets like these developing countries that the export credit programs have taken root—both for the benefit of the recipients and U.S. farm exporters. ■

The author is Deputy Director, Program Development Division, FAS.

Marketing News

The Best Things in Life *Are* Free

How would you like some free advertising? The monthly newsletter, **Contacts for U.S. Farm Products**, can help introduce your products to foreign buyers. And there's no charge to you. A description of your product(s), address, bank reference, phone and telex or cable address are published in the newsletter. Then it is sent to USDA's representatives overseas for distribution to importers. Interested buyers can then contact you directly.

To take advantage of this free service, contact the marketing representative of your state department of agriculture. Or write to the Export Promotion Division, Foreign Agricultural Service, Room 4945-South, U.S. Department of Agriculture, Washington, D.C. 20250.

Come With Us to Paris

Are you a U.S. exporter interested in getting into the European market? Then circle Nov. 15-20, 1982, on your calendar and plan to join us in Paris at the **Salon International de l'Alimentation (SIAL)**—Europe's second largest food exhibit. Space is available for 35 companies with products of U.S. origin on a first-come, first-served basis.

SIAL is a biennial show and attracts thousands of important trade contacts from all over Europe and surrounding countries. The last show, in 1980, featured food products from more than 60 nations. U.S. entries ranged all the way from from canned corn (considered by Europeans to be a 'gourmet' food for use in salads) to nuts and even to bear meat sausage. American wines and popcorn met with considerable interest, as did non-alcoholic champagnes and fruit juices, which found ready buyers from Moslem countries.

Companies interested in more information on SIAL or participation agreements should contact Debra Henke, Export Promotion Division, FAS/USDA, Room 4945-South, Washington, D.C. Tel (202) 447-7787.

Sunny Prospects for Sunflowerseed

Consumers in the Far East and Europe may soon be munching U.S. sunflowerseeds as they watch their favorite TV shows. The **National Sunflowerseed Association** recently sent two market development teams to these areas to promote confectionery sunflowerseeds. Japan and Taiwan appear to be the most promising markets of those visited in Asia. In Europe, drought-reduced supplies have made Spain the best market for sunflowerseeds this season. But the team also found that growing health food industries in the United Kingdom, West Germany, and Sweden offer good potential for U.S. sunflowerseed sales.

The association also sent a team to Algeria to promote sunflowerseed oil. Algeria may develop into an excellent growth market for U.S. oil since the Algerians need to import nearly all the sunflowerseed oil they use in cooking and salads. Sunflowerseed oil consumption in Algeria is expected to grow 7 percent annually through 1984. Currently, sunflowerseed oil is used to upgrade other imported oils, but there is some possibility that it could be marketed as identified sunflowerseed oil.

U.S. Tanners Show Off In China

U.S. tanners participating in the **First Leather Exhibition** held recently in Canton, China, were overwhelmed with the interest shown in their products. Most of China's major leather buyers attended, as did several officials from Beijing. Though the small show included only six U.S. and three European tanners, it marked the beginning of international leather exhibitions in China. U.S. tanners were rewarded with private meetings with heads of the leather corporation in Beijing and with heads of several provincial leather committees.

Chinese shoe manufacturers and buyers expressed serious interest in buying U.S. leather to expand their domestic industry. During their stay in Canton and Beijing, the tanners visited several shoe factories, and were impressed with the quality of the

leather and the workmanship. The exhibit gave a big boost to both U.S. and Chinese tanners, and plans for another leather show—this time in Beijing—are underway. China was the largest market for U.S. leather in 1981, importing $63 million worth.

Pining Away in the Caribbean

Jim Haney of the **Southern Forest Products Association** recently returned from a 2-week market development tour in the Caribbean. His mission: make arrangements for the Association's export seminars to be held in Jamaica and Haiti later this summer. He also sized up the market for southern pine in these countries. U.S. exports of southern pine lumber to the Caribbean were $37.5 million in 1981—more than one-third of all overseas sales.

New Meat Labeling Requirements For Saudi Arabia

The **U.S. Meat Export Federation** advises exporters doing business in Saudi Arabia to take note of new Saudi labeling regulations for meat. Cartons of meat imported into Saudi Arabia must show net weight, date of slaughter, expiration date, and product name (i.e. beef strip loin). The net weight labeling requirement applies to all meat products, including subprimals. U.S. exporters should confirm these labeling requirements with their Saudi importers, as well as with USDA's Food Safety Inspection Service, before shipping their products.

Chinese Swine Team Visit Leads to Sale of U.S. Stock

A Chinese team of swine specialists recently made its first visit to the United States to study the industry here. The delegation, representing **Ceroilfood (Chinese Foreign Trade Corporation),** visited export/import facilities and purebred swine farms, seeking information on export procedures and animal health conditions. China wants to increase the feed conversion rate, lean meat composition and growth rate of its own swine industry through the purchase of purebred U.S. swine. As a result of the mission, China purchased 470 purebred Duroc and Hampshire pigs for May delivery.

Wheat Associates' Sweet Smell of Success

Thanks to the efforts of **U.S. Wheat Associates' (USW)** consultant Ron Smith, Southeast Asian consumers will soon be feasting on such delicacies as sponge cakes, butter layer cakes, hand-cut chocolate doughnuts, brownies, and quick coffee cakes. Smith, a specialist in prepared mixes, recently returned from a 3-week servicing trip to Southeast Asia, where he conducted seminars and helped develop the pre-mix industry in the Philippines, Thailand and Malaysia.

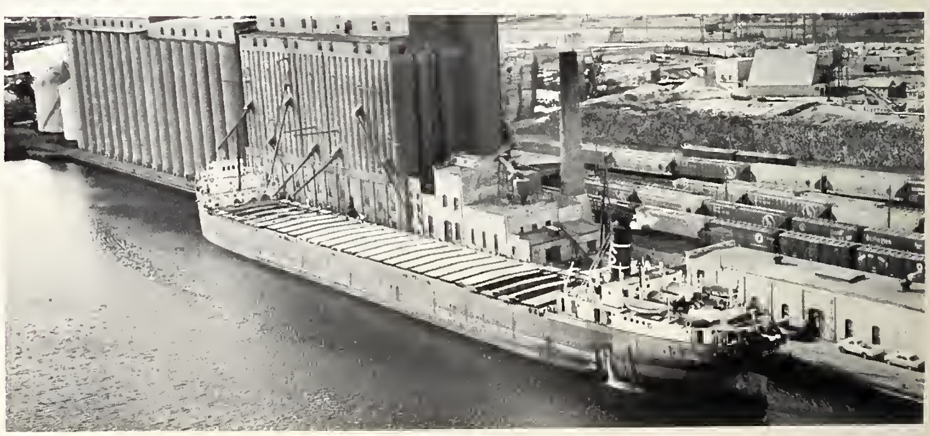
"Sweet goods" consumption in Southeast Asia has been tremendous, and several local mills are expanding into pre-mixes for both retail and commercial sales. Because this is a new concept there, the mills requested USW assistance in such areas as formulas, ingredients and marketing. In Manila, Smith visited several bakeries and taught a seminar on mixing. Later, in Bangkok, he met with the research and development staff of United Flour Mills to work on formulations for sweet goods. As a result of Smith's efforts in Malaysia, the aroma of hand-cut donuts and muffins will soon be enticing shoppers in the streets of Kuala Lumpur and Port Klang.

Egyptians Bullish on U.S. Tallow

Although it already is the largest market for U.S. tallow, Egypt continues to offer growth potential for exporters, according to Joe Keeler, director of market development for the **National Renderers Association (NRA).** Keeler's optimistic views stem from his recent trip to Egypt, where both the government and private trade expressed interest in expanding the use of tallow for human consumption, soap manufacture and animal feeds, including a tallow-based milk replacer.

The NRA and its Fat Protein Research Foundation recently signed a letter of intent with the Egyptian Research Council to develop and distribute research data to widen the use of tallow in Egypt. U.S. tallow sales to Egypt now run about $100 million annually.

Congress Takes Close Look At Cargo Preference Act



By William McNeill

The bill comes to $363 million. That's what USDA's Commodity Credit Corporation (CCC) paid in the past 5 fiscal yeasr to comply with the Cargo Preference Act. These costs stem from USDA's food shipments under Title I/III of the Agricultural Trade Development and Assistance Act (P.L. 480).

Cargo preference requires that at least 50 percent of the gross tonnage of U.S. government generated cargos, such as Titles I and III, be shipped on privately owned U.S.-flag vessels. These vessels must, however, be available at fair and reasonable rates by geographic areas.

But using American ships costs more and that's where the expense comes in. And worried Congressional budget watchers are taking a hard look at the level of these costs.

Are the Benefits Really Worth the Cost?

The CCC pays the difference between the cost of shipping an agricultural commodity in a U.S. cargo ship and what it would cost if the commodity

were shipped at a lower rate in a foreign-flag vessel. The difference is called the ocean freight differential (OFD). Over 9 million metric tons of P.L. 480 commodities (Titles I and III) went out on U.S. ships from fiscal years 1977 through 1981. Not only was it more expensive to use these ships, but there were delivery problems as well.

While most of the ships in the foreign fleets are of fairly recent construction, many of the tankers and dry bulk carriers in the U.S. fleet are 35 years of age or older. And some of these are in relatively poor condition.

In fact, of the 17 dry bulk carriers remaining in the U.S. fleet—this is the type of vessel preferred for loading by Title I/III commodity suppliers—nine are in this 35-year-old category.

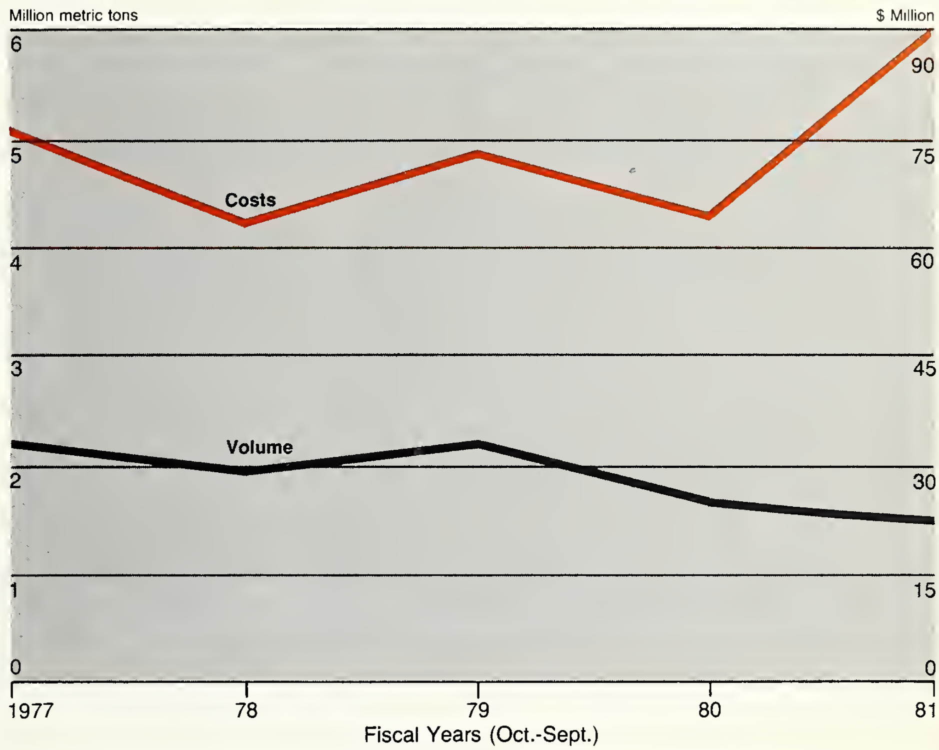
Recently, there have been a number of instances in which these older U.S.-flag vessels have arrived late at loading or discharge ports, or had damaged or short cargos. Many of these failings are due to the mechanical or structural problems connected with older vessels that often require them to be laid up for repairs.

At present, the Cargo Preference Act does not allow exclusion of older vessels because of their condition. However, this is probably one of the factors Congress will study.

If the law is changed by Congress, it might not be necessary to ship P.L. 480 cargos in American-owned ships. And the Department of Agriculture would not have to continue to pay more for shipping or contend with the delivery problems caused by using older vessels.

The Cargo Preference Act's "50 percent rule" already has a bit of a hedge built into it. As mentioned previously, American vessels have to be used only if they are available at a fair and

P.L. 480 Shipping Costs Rise While Volume Drops



reasonable cost in the geographic area where they are required. In general, the term 'fair and reasonable' has been interpreted to mean the cost of shipping plus a reasonable profit to the owner of the vessel.

Because of the shortage of U.S.-flag ships at a fair and reasonable rate, from fiscal year 1977 through 1981, less than the required 50 percent was shipped in American vessels each year.

In its review, Congress may also try to assess how the Cargo Preference Act has affected the U.S. shipping industry.

Despite the indirect support U.S. shipowners receive because of the Act and associated ocean freight differential subsidies, the number of vessels in the U.S.-flag merchant fleet has declined steadily since World War II. The U.S. cargo fleet now consists of only 578 privately owned vessels of 1,000 gross tons or more (less than 5 percent of the world tonnage), and it declined by 2 percent in size between 1970 and 1981.

During the same period, the Soviet Union, France, Mexico, South Korea and China substantially boosted the tonnage of their merchant fleets.

With millions of dollars at stake, commodity exporters, USDA, and commercial shipowners will all be watching closely as Congress wrestles with the problems of cargo preference. The results could have long-lasting effects on all three. ■

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Country Briefs

China

Good Growth Potential Seen For U.S. Wheat Exports

The broadening of food processing to include thousands of small enterprises in rural areas could open significant new markets for U.S. wheat. Up to now, China's large flour mills, bakeries and noodle-making establishments have been located in the larger cities and the western-style wheat products have been almost entirely for urban consumption or export.

Until recently, virtually all food processing was under the auspices of the Ministry of Light Industry, with the role of the Ministry of Food limited to provision of raw cereals and oil for processing. Now, however, retail outlets within the Ministry of Food are permitted to produce processed noodles and bread, pastries, soy sauce and malt beverages. The large enterprises under the Ministry of Light Industry also are undergoing expansion. For example, the three existing flour mills in Shanghai are being expanded and four new ones will be constructed.

Greece

Soybean Imports From U.S. Slated To Grow

The use of soybeans in Greece has expanded rapidly in recent years due to the gains in the use of soybean meal for livestock and poultry feeding. However, since soybean oil constitutes the main competition for olive oil—which furnishes income to a relatively large part of Greece's farm population—the government requires soybean processors to export the entire amount of soybean oil they produce, thus protecting the Greek olive oil industry.

Soybeans imported by Greek processors come almost exclusively from the United States and there is no evidence of a shift to other suppliers. Imports of soybeans from the United States are anticipated to reach 250,000 metric tons in 1982, up more than a third from 1981.

Japan

Margarine Sales Are Booming

Margarine sales for household use rose 20 percent in 1981 as Japanese consumers switched from butter to margarine. Improvements in the quality of margarine helped stimulate sales. Many specialty margarines are now on the Japanese market, including whipped margarine and safflower and corn oil margarines. 'Health spreads' which contain both milk fat and vegetable oil also have been introduced. Some firms have begun marketing margarine in 1-pound packs as well as half-pound packs. Margarine sales are expected to continue to grow in 1982 and new plants are now being planned. Another product gaining favor with Japanese consumers is soy milk. Several firms, including at least one major dairy, are now marketing soy milk in single-serving refrigerated packs. Some of the firms sell flavored soy milk as well as plain soy milk and sales seem to be going well.

Leather Agreement With U.S. Lapses

The U.S.-Japan Leather Agreement, which called for Japan to import specific quantities of U.S. leather each year from 1979 through 1982, expired at the end of March and has not been renewed. Japan fell far short of its commitment under the agreement—taking less than 18 percent of the first year's quota, about 33 percent of the second year's quota and only 20 percent of the third year's quota. The U.S. leather industry is planning legal actions against Japan and is continuing its 20-year battle to gain access to that important leather market.

Korea

Undertakes Joint Venture Corn Farming in U.S.

Two leading Korean firms, Sunkyong Limited and Pan-Ocean Bulk Carriers, reportedly have signed an agreement with U.S. Tobacco Co. to undertake a joint venture corn farming project in the United States. An initial 6,000 acres along the Columbia River in the state of Washington will be planted to corn in 1982, with a production target of 35,000 metric tons. If the experiment proves successful, the planted area will be increased to 100,000 acres next year, with the production target set at 500,000 tons. All corn produced on this farm will be sent to Korea.

Mexico

Devaluation To Trim Imports From U.S.

The devaluation of Mexico's peso last February is making U.S. farm products more expensive for Mexico and Mexican commodities cheaper for the United States. Corn, one of Mexico's chief import items, now costs roughly two-thirds more as a result of the devaluation. In contrast, Mexican tomatoes now cost U.S. importers about one-third less.

Nonetheless, trade in such major agricultural commodities will probably not be greatly affected by the devaluation. The Mexican government purchases U.S. grains and oilseeds with petrodollars, and officials are not expected to cut corners on food imports during an election year. And because the devaluation took place just after this season's harvest of tomatoes and other winter vegetables, Mexican farmers had no opportunity to take advantage of their price advantage. By the time the next planting season rolls around in November, higher bills for imported inputs may have dampened any enthusiasm for expanding plantings on the part of Mexican producers.

However, the devaluation is expected to crimp demand for a wide variety of minor items—from almonds to yeast—that Mexico's private sector imports from the United States into the free-trade border zone for use by the tourist industry. Thus, it is possible that this devaluation could pull Mexico from the ranks of the United States' two-billion-dollar markets during 1982.

Nigeria

Squeeze on Foreign Exchange Reserves Prompts Import Freeze

The Nigerian government, faced with a sharp decline in oil export earnings, dwindling foreign exchange reserves and high monthly import bills, has put a freeze on all imports.

No indication has been given as to the duration of the ban, but it is clear that its life will depend on two factors: the government's need to conserve foreign exchange and thus begin to shore up its financial position, balanced against the political and economic problem of cutting off imports and disrupting normal economic activity.

The government would find itself in a very difficult position if it restricted food imports—the most viable and important imports—for any length of time, because of the political furor that such a ban would cause. It may be that the government eventually will allow certain products to be imported, while enforcing the ban for most others. However, if the freeze is in effect for quite a while, it will hurt U.S. exports, particularly of rice and wheat. Generally, once an import ban is imposed, the commodity trade rarely reaches the level of the previous year.

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